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SENSITIVE
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FOR A/S VALENZUELA FROM CHARGE ROBIN MATTHEWMAN
WHA/BSC FOR MILT DRUCKER, BRUCE FRIEDMAN, AND MARY DASCHBACH

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SUBJECT: Scenesetter for Assistant Secretary Valenzuela's December 16-17 trip to Uruguay

Summary

¶1. (SBU) Embassy Montevideo warmly welcomes your December 16-17 visit. You will be the highest-ranking U.S. official to visit Uruguay during the Obama Administration. Arriving shortly after Uruguay's Presidential elections, your visit will allow us to recognize the excellent collaboration we have nurtured with the outgoing Vazquez administration and to begin building a strong relationship with former guerrilla turned president-elect Jose "Pepe" Mujica and his team. Your visit will serve as an affirmation of the important role Uruguay plays in promoting regional stability, democracy, conflict resolution and peacekeeping missions worldwide. End Summary.

President Vazquez's Legacy

¶2. (SBU) Vazquez is the first Frente Amplio coalition president in Uruguayan history. He has had an extremely successful presidency, with an average 60% approval rating that is still seeing upticks in his last months in office. Under Vazquez, the Frente demonstrated that it could successfully combine its concern for social justice with economic growth.

¶3. (U) Coming into the presidency on the heels of Uruguay's grave economic crisis of 2002, the GOU (and in particular longtime Minister of Economy and now Vice President-Elect Danilo Astori) made prudent use of the subsequent recovery and the rise of commodity prices to deliver five years of positive economic growth. Vazquez's economic team also kept inflation steady and unemployment fairly low, successfully diversified Uruguay's trade relationships away from dependency on Argentina and Brazil, and strengthened its banking system. The GOU maintains a positive investment climate, keeping corruption low, providing juridical security, and completing vitally important infrastructure projects such as a world class container port, a new airport and improved roads. Tax incentives have also played a part. The result has been rapidly increasing foreign investment, and economic growth barely touched by the world financial crisis. The Central bank has a good cushion of international reserves and the GOU has proactively secured credit lines from the World Bank, IDB and other IFIs.

¶4. (U) The Frente Amplio government strengthened Uruguay's traditionally strong labor rights considerably. During Vazquez' administration, 36 labor rights laws were passed, including a law to promote greater employee participation in business; collective bargaining in the public sector and expanded retirement options. Poverty declined, which the Frente credits to its social policies, including the GOU's program of assistance to low-income families. That was funded, in part, by the implementation of a new income tax on middle to high income individuals. A practicing oncologist, Vazquez has taken special interest in public health. He banned all indoor public smoking, extended health care to many low income families through a payroll tax and invested in state of the art medical facilities. Under Vazquez's leadership, Uruguay became the first country in the world to make the one-laptop-per-child idea a reality. Over 400,000 elementary school children across Uruguay work daily on their laptops, using free internet at the schools and in many public places. Finally, the GOU has sought ways to prod science and technology cooperation, for example bringing the Pasteur Institute to Uruguay and setting up organizations to foster innovation and research.

¶5. (SBU) The Vazquez administration, in close coordination with the DEA, also made significant strides in the areas of counternarcotics and money laundering. The focus has led to several high profile cocaine seizures, including two planes in 2008 and a record seizure of over two tons on a yacht in 2009. The GOU has launched specialized courts for organized crime, allowing the judicial

system to confront the growing problem of organized crime, including money laundering and trafficking in persons. The prison system remains overcrowded and underfunded, but after a 2009 visit from the UN Special Rapporteur for Torture and other Cruel, Inhuman or Degrading Treatment or Punishment, the administration moved quickly to double the funding available to construct and remodel prisons. By Latin American standards, Uruguay is relatively safe and secure, but crime is growing and personal security is a major concern. Many believe that the growing use of "pasta base," a form of crack, is fueling the increase in crime.

Increasingly a Partner on Regional and Multilateral Issues

¶6. (SBU) We have developed an increasingly collaborative and constructive relationship with the initially skeptical Vazquez administration. Especially in the last two years, Uruguay has been an important voice for strong democratic institutions, prudent economic policies, and the peaceful resolution of conflicts. The GOU was helpful in the OAS General Assembly deliberations on Cuba, helping us achieve the final compromise. Uruguay helped behind the scenes to calm tensions between Colombia and Ecuador, worked with Chile to calm the waters in Bolivia, argued for Colombia's sovereign right to sign the U.S.-Colombia Defense Cooperation Agreement, and was a constructive voice for the return to the constitutional order in Honduras, arguing against outside interference and supporting President Arias' peace process. As a member of the International Atomic Energy Agency's Board of Governors, Uruguay supported important resolutions on Iran and in the selection of a new director general. Within the UN Human Rights Council, the GOU voted for the USG candidate to the Council, and was helpful on anti-Israeli resolutions, the Goldstone Report controversy, and on various single country resolutions of interest to the U.S.

¶7. (SBU) The USG's warm reception of President Vazquez during his September visit to Washington and New York was well received by the GOU. He and his delegation were impressed by and grateful for the meeting with Secretary Clinton and her handling of the press

conference afterwards, as well as Vazquez' inclusion in President Obama's meeting with leading peacekeeping mission countries, and they are still thanking us for it. This was one more example of the fact that small gestures can go a long way with Uruguay.

The Outstanding Trade Issues

¶18. (SBU) Conversations with Mujica and Foreign Minister Vaz will likely come around to the issue of access to the U.S. market for Uruguayan lamb and citrus. Vazquez placed a very high priority on advancing these SPS issues with the U.S., and raised them again with the Secretary in September. Indications are that they will be important to Mujica as well. In parallel, we have been pushing for more access to the Uruguayan market for U.S. beef, live cattle and chicken. USDA has advanced significantly on a draft rule to lift SPS restrictions on boneless lamb and the GOU has made great strides on its risk assessment of U.S. beef.

¶19. (SBU) Your interlocutors will likely also be interested in the USG's current policy on trade, and will seek your support for Senator Lugar's proposal to extend the Andean trade preference program to Uruguay. Mujica is on record opposing the negotiation of an FTA with the U.S. but supportive of our robust Trade and Investment Framework agreement (TIFA). It will be useful for you to explain that the USG is not embarking on new trade agreements at this time. We welcome Uruguay's continued support for a successful outcome to the Doha talks, and will continue to seek to remove barriers to trade and investment through the TIFA process.

Historic Elections

¶110. (SBU) Mujica's historic transformation -- from a Tupamaro guerrilla, who spent a brutal 15 years in prison, to leadership of the country -- was considered highly unlikely by most observers of Uruguayan politics only two years ago. However, aided by President Tabare Vazquez's achievements and a strong communicator's ability to connect with the electorate, Mujica and his Frente Amplio (FA) coalition won big in the elections this fall. The Frente secured absolute majorities in both houses of parliament in the October 25 general elections, and Mujica then soundly beat National Party challenger Luis Alberto Lacalle by ten points (53-43) in a November 29 runoff election. Lacalle's poor showing disappointed National Party supporters, and will lead to some soul searching. In contrast, charismatic third-place candidate Pedro Bordaberry is well positioned to renew and rebuild the previously failing Colorado Party and will be a formidable opponent in the next elections.

Mujica: Social Justice Focus, Foreign Policy Neophyte

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¶11. (SBU) As president, Mujica is expected to focus on the domestic policy concerns that have been his lifelong passions - poverty reduction, housing, education, crime, and the restructuring of the state. He is moving quickly to put together a Cabinet that he hopes will consolidate the gains achieved "under the first Frente Amplio government" and which satisfies his complex coalition's desire for political balance among the various constituent factions. He understands the importance of continuing Vazquez's

prudent macroeconomic policies and generating additional growth, and will rely on Vice President Astori to oversee the economic ministries.

¶12. (SBU) Mujica's foreign policy will be a work in process, as he becomes more familiar with the key issues and builds his foreign policy team. He tapped a career diplomat, Luis Almagro, to be his foreign minister (currently Uruguay's ambassador to China), and congressman Luis Angel Rosadilla as his Defense Minister. He will likely focus at first on relations with his neighbors, mending the relationship with Argentina, shoring up ties with Brazil, and exploring ways to foster additional regional integration. He participated actively with his Argentine, Brazilian, Paraguayan, and Venezuelan counterparts during the December 7-8 Mercosur summit in Montevideo. Many expect the Mujica government to continue to support Uruguay's peacekeeping work. Mujica will seek a constructive relationship with the United States. It will likely take some time to reach the high level of cooperation that we currently enjoy on regional and multinational issues.

Bilateral Assistance

¶13. (U) The USG provides modest levels of bilateral assistance to Uruguay, in part because the relatively high level of per capita income (currently around \$9,000). Many Uruguayans remember and greatly appreciate the U.S. assistance provided during the financial crisis of 1999 to 2002, including a vital \$1.5 billion bridge loan and increased public and private donations to hospitals, schools, and humanitarian organizations, but that short-term assistance has mostly ceased.

¶14. (U) The U.S. Southern Command's Humanitarian Assistance Program (HAP) and Global Peace Operations Initiative (GPOI) programs provide a significant portion of funds available to the U.S.

embassy for engagement. In 2009, construction and donations amounted to approx \$1.4 million. Donations in 2009 included equipment for emergency operation centers, firefighting equipment, dental clinic supplies, equine therapy programs, and supplies for schools, orphanages and old age homes. IMET/CD funds of approximately \$650,000 annually provide the primary source of training and education.

¶15. (U) The Inter-American Foundation provides small but effective development grants to NGOs and community groups. In 2008 the IAF funded three proposals at a total of USD 279,000. The USG has ongoing technical assistance programs in place run by Treasury and the FAA, and receives small amounts of counternarcotics funds from INL, as well as support from DEA. We sponsor active scientific exchanges and joint research in areas such as Antarctic research, health, agriculture, and alternative energy.

Public Diplomacy and Outreach

¶16. (U) Mutual understanding is Embassy Montevideo's number one goal, and we have successfully raised the U.S. approval rating here substantially, to a high 70% after President Obama's election. We credit much of this to our dedicated outreach towards a variety of audiences, as well the placement each year of around 1000 good news

stories in the local media. Our international visitor program continues to attract outstanding Uruguayan candidates, including Jorge Vazquez (the brother of the President) and his two senior aides for drug control and money laundering. We have an exchange programs in place that involve animation software students and professors, and we also created exchange programs involving law students, professors, and judges from schools in Montevideo and the U. of Florida School of Law in Gainesville.

¶17. (U) English teaching is a priority here. We gave the local school system funds to teach English to grade one through grade three students in 56 schools. Uruguayan authorities are taking up the funding and will expand the program to enable students from the 1st to the 6th grades to learn our language, over a phase-in period lasting about three years. The Embassy was one of the first three U.S. Missions to have its own FaceBook page. We now have over 3700 "FaceBook fans." Finally, successful lobbying from the Embassy induced the Uruguayan government to end its six-year moratorium on funding the local Fulbright Commission by giving the organization \$150,000 in 2009.

Comment

¶18. (SBU) Our policy of engagement with Uruguay in areas of mutual interest has succeeded quietly but effectively over the last five years, and we have an excellent opportunity to build on this strong foundation. As there were with the Vazquez administration, there will be voices pushing the next Uruguayan government toward a populist and more ideological stance, but pragmatism will likely rein them in. There is a natural fit between President-elect Mujica's priorities and our initiatives within Pathways, the Energy and Climate Change Partnership, and the Interamerican Social Protection Network. Your visit will help us underscore our message that the USG is a good partner and sincerely cares about economic and social justice in Latin America. Your visit will also demonstrate that the USG understands the important role that Uruguay plays, both in the region and beyond.

MATTHEWMAN